

VZCZCXRO3318  
PP RUEHDBU RUEHIK RUEHPOD RUEHPW RUEHSL RUEHYG  
DE RUEHBUL #2179/01 2151334  
ZNR UUUUU ZZH  
P 031334Z AUG 09  
FM AMEMBASSY KABUL  
TO RUEHC/SECSTATE WASHDC PRIORITY 0576  
INFO RUEATRS/DEPT OF TREASURY WASHINGTON DC 0865  
RUCNAFG/AFGHANISTAN COLLECTIVE  
RUEHZG/NATO EU COLLECTIVE  
RUEABND/DEA HQS WASHINGTON DC  
RUCPDOG/DEPT OF COMMERCE WASHINGTON DC

UNCLAS SECTION 01 OF 03 KABUL 002179

DEPT FOR SRAP, SCA/FO, SCA/RA, AND SCA/A  
DEPT PASS FOR AID/ASIA SCAA  
DEPT PASS USTR FOR DELANEY AND DEANGELIS  
DEPT PASS OPIC  
DEPT PASS FOR TDA FOR STEIN AND GREENIP  
USOECF FOR ENERGY ATTACHE  
CENTCOM FOR CSTC-A  
NSC FOR JJONES AND GSMITH  
DASD FOR DSEDNEY  
TREASURY FOR JCASAL, ABAUKOL, MNUGENT, AND AWELLER  
COMMERCE FOR HAMROCK-MANN, DEES, CHOPPIN, AND FONOVIH

SENSITIVE

SIPDIS

E.O. 12958 N/A

TAGS: [EFIN](#) [EAID](#) [ECON](#) [EAGR](#) [PGOV](#) [AF](#)

SUBJECT: Ambassador Wayne and SRAP Staff Meetings with Afghan  
Finance Minister Zakhilwal and Central Bank Governor Fitrat

REF: A) Kabul 2002, B) Kabul 2056

-----  
SUMMARY  
-----

1. (SBU) In a July 26 meeting with Finance Minister Zakhilwal, Ambassador Wayne and SRAP staff praised successful efforts by the GIROA to increase revenue collection in Afghanistan and address corruption. Zakhilwal said that donors should reward this progress by channeling more aid through the central government budget. He also made clear that direct budget support could be conditioned on additional reform measures. Ambassador Wayne stressed the need to demonstrate accountability as U.S. assistance to Afghanistan increases and noted that the U.S. Mission has approved the Ministry's request to receive direct budget support. Zakhilwal mentioned that strengthening revenue collection is of primary importance and that he has instituted a policy of zero tolerance for corruption at the Ministry. He requested U.S. assistance in increasing transparency, including help in strengthening the government's internal audit function. In a separate meeting on July 27, Ambassador Wayne and SRAP staff met with Central Bank Governor Fitrat to encourage expansion - and oversight - of mobile banking. SRAP staff thanked Fitrat for his leadership on money service provider (hawala) licensing and stressed the importance of continued efforts in this area. Fitrat requested the Ambassador's support in completing ongoing work to establish Afghan deposit insurance, build a banking institute, and start an Afghan stock exchange to generate long-term capital.

End Summary

-----  
FOCUS ON INCREASED REVENUE COLLECTION  
-----

2. (SBU) Ambassador Wayne and Mr. Rami Shy, who serves as U.S. Treasury's representative to SRAP, opened the meeting with Finance Minister Zakhilwal saying the U.S. was very encouraged by increased customs and tax revenue collection. Zakhilwal noted that his team -

in the final month of the last fiscal year (SY 1387) - surpassed the IMF revenue target by adopting strong measures (Note: The original IMF revenue target was lowered and would not have been surpassed otherwise. Importantly, however, Minister Zakhilwal's efforts at the end of SY 1387 undoubtedly played a key role in exceeding the lowered target. Moreover, these efforts helped set the conditions for revenue collection progress in the current fiscal year). These measures included dismissal of underperforming and corrupt collection officials, instituting rewards for performing staff, daily reporting, and prioritization of revenue collection across the Ministry. He pointed out that these measures were continued into the current fiscal year and as a result revenue year-over-year is up more than 80%. Moreover, in the area of customs revenue, the Government has doubled revenue collection year-over-year and believes that even greater gains are possible. Importantly, Minister Zakhilwal recently unveiled to donors a 'Revenue Action Plan' that recommends further steps and should result in better collection results if properly implemented and resourced. The current IMF revenue collection target is Afs 51 billion (roughly USD 1 billion). If the Ministry of Finance maintains revenue collection at its current pace, GIROA will greatly exceed the IMF's target for SY 1388. Comment: Enhanced revenue collection is also a result of improved clarity on institutional arrangements of government entities at the border. Earlier this year, the Ministry of Finance gained agreement from the Ministry of Commerce and Industries to implement an MOU that guaranteed Customs Officers unfettered access to verify fuel imports at the state-owned Fuel and Liquid Gas Enterprise (FLGE) facility in Hairatan. In mid-July, Ministers of Finance and Interior signed an MOU in which they commit to enhancing cooperation at the border. This will help to improve border security as well as facilitate Customs officer's ability to fulfill their mandate for revenue collection.

KABUL 00002179 002 OF 003

13. (SBU) Ambassador Wayne advised Zakhilwal that the U.S. Mission has approved direct budget support to the Ministry of Finance to fund at least 22 of the 55 priority technical advisory positions with up to \$30 million over two years (Reftel A). We intend to pilot this initiative and work with UNAMA and other donors, and pursue expanded support (based on successful performance of this pilot). Zakhilwal thanked the Ambassador and said that this should open the door for more direct budget support. He pointed out that approximately 20% of aid goes through the Afghan system and that this percentage should be increased. To bolster this point, Zakhilwal mentioned that the financial management system of Afghanistan is strong and transparent, representing a real achievement for the government. He said he hopes to further improve transparency through the provision of technical assistance for the Ministry's Internal Audit Department and the reinstatement of Article 61, which will give the Ministry internal audit authority over other Ministries. Strengthening GIROA's Internal Audit function, specifically reinstatement of Article 61, is also an Afghanistan Reconstruction Trust Fund 'conditioned' benchmark. This Incentive Program essentially offers additional discretionary funding if the GIROA meets certain pre-agreed benchmarks on an annual basis (Reftel B).

14. (SBU) Zakhilwal noted that the current leadership within the cabinet is very good and communication is better than he has ever seen during his time in government. He further pointed out that people underestimate President Karzai's commitment to reform. More broadly, Zakhilwal called on the Ambassador and SRAP staff for help in moving forward efforts to reform the Ministry of Mines and other ministries that collect non-tax revenue (e.g. Ministry of Interior and Ministry of Transport and Civil Aviation). In particular, Zakhilwal believes that mining contracts are not fully transparent and that material extracted is often worth more than what is being collected. As a result, the cabinet asked the Ministry of Finance to review all finalized mining contracts (except the Aynak copper mine) to ensure proper revenue collection. Improvement of the regulatory framework and transparency in the mining sector is also an Afghanistan Reconstruction Trust Fund 'conditioned' benchmark (Reftel B).

-----

## EXPANDING MOBILE BANKING

---

15. (SBU) In a separate meeting, Ambassador Wayne, Mr. Rami Shy, and SRAP Special Advisor Ashley Bommer met with Central Bank Governor Fitrat to discuss the expansion of mobile banking and to follow-up on his efforts to license and supervise money service providers in Afghanistan. Governor Fitrat said he is trying to create a partnership between the formal banking sector and the mobile banking platform. For example, to alleviate banker's uncertainties with mobile banking, he is bringing the various parties together for a mobile money workshop on August 11. Ambassador Wayne and SRAP staff encouraged Fitrat to continue his leadership in this important area, noting that mobile banking represents a viable platform for ensuring payment to GIROA employees in remote areas. Fitrat agreed and added that this technology could also be used to pay electricity bills and other debts over time. He also said he has seen tremendous growth in credit unions operating in difficult areas where soldiers rarely go. These credit unions, according to Fitrat, are offering a variety of popular Sharia-compliant products to finance development and agriculture.

16. (SBU) Fitrat outlined provisions of a new Central Bank draft regulation for the mobile banking sector. Interested parties have one month to comment on the draft regulation, which provides basic consumer protection, limits daily and monthly remittance amounts (USD 600 and 3,000 respectively), and provides anti-money laundering measures and combating the financing of terrorism controls. Fitrat noted his vision is in the beginning to limit the amount of mobile banking agents to around 1,000. This, he believes, will help ensure that the agents are chosen carefully. As a result, mobile banking

KABUL 00002179 003 OF 003

customers will be better serviced and protected. He emphasized the importance of ensuring that there are no delays in mobile banking payments from agents to customers and said that he would be following this issue closely. Note: There are currently 650 agents and some 70,000 mobile banking customers.

---

## TACKLING UNLICENSED MONEY SERVICE PROVIDERS

---

17. (SBU) Mr. Shy pointed out that the U.S. is encouraged by Fitrat's important work in the area of money service provider licensing. Mr. Shy further said to Fitrat that success in this area is widely seen in Washington as an important sign of progress in Afghanistan. Fitrat believed that his supervision team would soon finish money service provider licensing in Mazar-e-Sharif and then move next to Herat and ultimately Kandahar and surrounding provinces in the South. In response to a question from Mr. Shy, Fitrat indicated that licensing money service providers (many for the first time ever) presented several challenges along the way; challenges that - for the most part - have been overcome.

---

## BUILDING THE FINANCIAL SECTOR

---

18. (SBU) Governor Fitrat outlined several key initiatives and requested Ambassador Wayne's support in ensuring their delivery via U.S. funding. These initiatives include the start-up of an Afghan Deposit Insurance Corporation (ADIC), Afghan Institute of Banking and Finance, and an Afghan stock exchange to raise more long-term capital. Under the Central Bank's scheme, the ADIC would provide insurance for depositors up to the equivalent of \$1,000 or Afs 50,000. The Afghan Institute of Banking and Finance would provide basic training to the more than 6,000 financial sector employees throughout the country (half of whom are female). According to Fitrat, very few opportunities are available to further train domestic talent in the area of banking and financial services, representing an important gap. In the coming months, Fitrat would like to bring representatives of the NASDAQ to Kabul or Dubai for further discussion on setting up a stock market along the lines of what was done previously in Iraq. Fitrat also mentioned ongoing work to finalize a web-based Afghan Credit Information Bureau that

will operate from the Central Bank. According to Fitrat, the private sector is not currently equipped to take on this critical function.

-----  
COMMENT  
-----

19. (SBU) Members of Zakhilwal's executive team recently told FINATT that revenue collection may decline or remain at present levels in the coming months due to the August 20 election and Ramadan. It is important to closely monitor revenue collection developments during this time and maintain continued pressure in this area. Governor Fitrat's commitment to making mobile banking work is important and represents a relatively new development on his part. Moreover, the Central Bank's efforts to license and supervise money service providers (hawala) are critical and require the Mission's continued attention as efforts move beyond Kunduz and Mazar-e-Sharif into Herat and Kandahar.

EIKENBERRY